

Message Text

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ACTION COME-00

INFO OCT-01 EA-07 ISO-00 AGRE-00 CIAE-00 EB-08 INR-07

LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 FRB-03 OMB-01

DODE-00 AID-05 IGA-02 /044 W

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 0363

INFO AMEMBASSY BANGKOK

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

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E.O. 11652: N/A

TAGS: ASEAN, ID, ECEM, ECRE

SUBJECT: ASEAN FERTILIZER PROJECT

REF: A) STATE 061147, B) JAKARTA 4060, C) STATE 075863

1. SUMMARY: GOI HAS COMPLETED ASEAN MARKET STUDY AND FEASIBILITY STUDY FOR ITS ASEAN UREA PROJECT. DECISION ON WHETHER INDONESIAN OR MALAYSIAN UREA PROJECT WILL BE STARTED FIRST, WITH SECOND FOLLOWING WHEN DICTATED BY ASEAN DEMAND, NOT EXPECTED UNTIL GOM FEASIBILITY STUDY COMPLETED IN AUGUST. GOI OFFICIAL STATES NO DECISIONS ON SOURCES OF FINANCING OR ON NON-ASEAN PARTICIPATION HAVE YET BEEN MADE. COMPLETION OF SEVERAL GOI UREA PROJECTS OVER NEXT FEW YEARS BRINGS INTO SHARP QUESTION WHETHER OR NOT INDONESIA SHOULD PROCEED WITH THE ASEAN PROJECT. END SUMMARY.

2. CONSULTANT MENTIONED REFTEL B IS PERRY ONSTOT OF AGRAR-UND HYDROTECHNIK GMBH (AHT). IN ADDITION TO ONSTOT'S MARKETING STUDY, A PROJECT REPORT (FEASIBILITY STUDY) HAS BEEN PREPARED BY PUSRI AND CONSULTANT SCIENTIFIC DESIGN.

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3. WOLFGANG KAUPISCH, IBRD SENIOR INDUSTRIAL ADVISOR WHO IS HIGHLY KNOWLEDGEABLE REGARDING FERTILIZER DEVELOPMENTS, CONFIRMS RECENT VISIT TO INDONESIA OF IBRD SUPERVISORY MISSION IN ORDER TO INSPECT PUSRI III (FINANCED BY IBRD) AND PUSRI IV (CO-FINANCED BY SAUDI ARABIA AND IBRD) AND RELATED FERTILIZER DISTRIBUTION SYSTEM. NO REQUEST FOR

IBRD FINANCING FOR ASEAN FERTILIZER PLANT WAS PUT FORTH AND PROJECT WAS DISCUSSED ONLY BRIEFLY AND IN GENERAL TERMS. TEAM ADVISED GOI TO LOOK CAREFULLY AT MARKET BEFORE PROCEEDING FURTHER WITH NEW UREA PROJECT.

4. KAUPISCH ALSO HAS CAUTIONED GOI, PARTICULARLY DIRECTORATE GENERAL OF CHEMICAL INDUSTRIES, TO LOOK BEFORE LEAPING INTO ANOTHER UREA PROJECT. HE MAINTAINS THAT WITH COMPLETION LATE THIS YEAR OF PUSRI IV INDONESIA WILL BE ABLE COMFORTABLY TO SUPPLY ITS NEIGHBORS WITH UREA. (TOTAL OUTPUT OF PUSRI I, II, III AND IV WILL BE 1.6 MILLION TONS; PLANT IN JUKANG, WEST JAVA WITH 570,000 TON ANNUAL CAPACITY WILL BE COMPLETED IN EARLY 1979; AND EAST KALIMANTAN PLANT, WHICH IS FORMER FLOATING FERTILIZER PROJECT, IF IMPLEMENTED, COULD ADD ANOTHER 570,000 TONS TO THE TOTAL, STARTING IN 1980). AGAINST THIS, KAUPISCH SAYS DOMESTIC CONSUMPTION, WHICH HAS NOT GROWN IN PAST THREE YEARS AND ACTUALLY FELL IN 1976, IS ONLY ABOUT 600,000 TONS PER ANNUM. IN VIEW OF THESE HARD FACTS, KAUPISCH IS ATTEMPTING TO CONVINCE THE GOI THAT IT DOES NOT MAKE ECONOMIC SENSE TO PROCEED WITH THE ASEAN PROJECT AT THIS TIME. HE FEELS WORKING LEVEL GOI OFFICIALS ACCEPT HIS ARGUMENTS BUT IS CONCERNED THAT SENIOR LEVELS REMAIN DETERMINED TO PUSH AHEAD FOR "POLITICAL" REASONS. KAUPISCH IS UNINFORMED ABOUT POSSIBLE SOURCES OF FINANCING FOR THE PROJECT BUT DID IMPLY THAT THE IBRD WOULD HAVE VERY LITTLE INTEREST IN FINANCING SUCH A PROJECT AT THIS TIME.

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5. EMBOFF CALLED ON HARTARTO, DIRECTOR OF CHEMICAL INDUSTRIES, FOR OFFICIAL VIEW APRIL 11. HE SAID ASEAN MARKET STUDY CONCLUDED THAT ONE ASEAN UREA PROJECT SHOULD BE BEGUN AT THIS TIME AND THAT THE TIMING OF THE SECOND SHOULD DEPEND ON ASEAN DEMAND. A DECISION ON WHETHER THE INDONESIAN OR THE MALAYSIAN UREA PROJECT IS TO BE FIRST MUST AWAIT COMPLETION OF THE GOM'S FEASIBILITY STUDY, WHICH HE EXPECTED IN AUGUST. THUS EVEN THOUGH INDONESIA IS READY TO PROCEED AT THIS TIME, GOI PROJECT WILL BE IN LIMBO UNTIL AT LEAST 4-5 MORE MONTHS HAVE PASSED. HARTARTO REFUSED TO SPECULATE ON HOW GREAT A TIME LAG THERE MIGHT BE BETWEEN THE LAUNCHING OF THE FIRST AND SECOND PROJECTS. NOR WOULD HE COMMENT ON THE POSSIBILITY OF NON-ASEAN INVOLVEMENT IN THE PROJECTS OR ON SOURCES OF FINANCING, OTHER THAN TO SAY THAT NO DECISION ON EITHER HAD BEEN REACHED. (FYI: APRIL 11 INDONESIA DAILY TIMES REPORTS THE APRIL 10 DEPARTURE OF A FOUR MAN GOI TEAM FOR SINGAPORE FOR AN APRIL 11-12 MEETING "TO WORK OUT THE FINANCING OF ASEAN PROJECTS."

END FYI).

6. ASKED ABOUT POSSIBILITY OF EXCESS PRODUCTION, HARTARTO ADMITTED THAT BY 1979 EXPORTS WOULD BE NECESSARY. GOI'S FIVE YEAR PLAN HAD PUT 1979 DOMESTIC CONSUMPTION AT 1.9 MILLION TONS, BUT RECENT ASEAN MARKET STUDY LOWERED THIS TO 1.5 MILLION. DEPENDING ON HOW QUICKLY KUJANG FACILITY REACHES FULL PRODUCTION, INDONESIA COULD HAVE SURPLUS THAT YEAR OF OVER 300,000 TONS.

7. COMMENT: ACCEPTING KAUPISCH'S FIGURES AS ACCURATE, WHICH WE DO, EVEN HARTARTO'S LOWERED 1979 DOMESTIC CONSUMPTION FIGURE IMPLIES A MORE THAN DOUBLING OF CURRENT USAGE. BASED ON RECENT TRENDS, WE DOUBT THAT THIS IS LIKELY. EVEN WITH GROWTH IN DOMESTIC CONSUMPTION OF 20 PERCENT OVER NEXT 2-3 YEARS, GOI COULD BE SADDLED WITH A SURPLUS OF MORE THAN MILLION TONS BY 1979. ADDITION OF LIMITED OFFICIAL USE

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ANOTHER 600,000 TONS IN 1980, EAST KALIMANTAN PROJECT, AND YET ANOTHER 600,000 TONS FROM THE ASEAN PROJECT IN, SAY, 1980 OR 1981 WOULD GIVE INDONESIA ANNUAL PRODUCTION WELL IN EXCESS OF THREE MILLION TONS, WITH DOMESTIC CONSUMPTION NOWHERE NEAR THAT FIGURE. POSSIBLY INDONESIA IS COUNTING ON GUARANTEED PURCHASES BY ASEAN PARTNERS TO TAKE UP THE SLACK. IN ANY CASE WE SEE NO EVIDENCE SO FAR THAT GOI IS NOT PREPARED TO PROCEED WITH ASEAN PROJECT IF SELECTED. END COMMENT.

8. KAUPISCH BELIEVES C. ITOH HAS BEEN RETAINED BY GOM TO DO FEASIBILITY STUDY FOR MALAYSIA UREA PROJECT. NEWSOM

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Message Attributes

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Sent Date: 12-Apr-1977 12:00:00 am
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